I. Introduction

The accompanying projections outline briefly the estimated growth through 1976 of the economies of Asian countries on the periphery of Communist China. Figure 1 shows estimated GNP, absolute and per capita, for 1965 and 1976 for the three postulated conditions of growth -- low, normal and high. It will be noted that in none of the countries considered does the average annual growth of GNP exceed 7 percent for the normal case and in 10 of the 14 countries the per capita GNP is not expected to reach $200 in 1976. In most instances higher annual growth rates will be achieved by the more developed countries and as a result, the gap between the absolute values of GNP and the per capita incomes of the developed and less developed nations is expected to widen. Continued rapid population growth for most Asian countries will cut sharply into per capita gains. Estimated population growth is shown in Figure 2.

Wide differences in personal incomes within a country are not indicated by the estimated average per capita figures. Moreover, the projections have not assessed directly the extent to which such differences are likely to be changed by 1976. National development goals for a number of countries, however, include the objective of a more even distribution of income both on a per capita and regional basis. For example, Pakistan plans to narrow the gap in average incomes between East and West Pakistan;

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Figure 1

Estimated GNP Data for Selected Asian Countries, 1965 and 1976 a/

	Estimated GNP 1965		Average Annual GNP Growth, 1966-76 (Percent)			Estimated GNP, 1976 (Billion US $)			Estimated GNP Per Capita, 1976 (US $)		
	Total (Billion US $)	Per Capita (US $)	Low	Normal	High	Low	Normal	High	Low	Normal	High
Japan	78.2	799	3	5	6	108	134	148	982	1,214	1,347
India	52.1	107	3	4	5-6	72.1	80.2	89.1-98.9	114	127	141-157
Pakistan b/(1)	9.57	85	4	6	7	14.7	18.2	20.1	98	121	133
(2)			3.5	5	6	14.0	16.4	18.2	93	109	120
Ceylon	1.52	135	3	3.5	5	2.10	2.22	2.60	138	145	170
Burma	1.76 c/	71	2.5	3.5-4.0 d/	4.5-5.5 d/	2.31	2.64	3.03	73	84	96
Malaysia	2.85	303	4.5	5	5.5	4.63	4.87	5.14	353	372	392
Singapore	0.850	431	2	4	5.5	1.06	1.31	1.53	370	458	536
Indonesia	8.06	76	0	3	5	8.06	11.2	13.8	59	82	107
Thailand	3.82	123	6	6.5	7	7.25	7.64	8.04	169	178	187
Cambodia	0.768	126	3	4	5	1.06	1.18	1.31	130	144	160

(Continued on Next Page)

Figure 1 - (Continued)

Estimated GNP Data for Selected Asian Countries, 1965 and 1976 a/

	Estimated GNP 1965		Average Annual GNP Growth, 1966-76 (Percent)			Estimated GNP, 1976 (Billion US $)			Estimated GNP Per Capita, 1976 (US $)		
	Total (Billion US $)	Per Capita (US $)	Low	Normal	High	Low	Normal	High	Low	Normal	High
South Vietnam	1.73	109	3	4	7	2.44	2.66	3.40	117	127	163
Philippines	5.08	157	4	5	6	7.82	8.69	9.65	163	182	201
Taiwan	2.57	207	5	7	8	4.40	5.41	6.00	277	341	377
South Korea	3.06	108	4	5	7	4.70	5.23	6.43	123	136	168

a/ Value data are given in constant 1965 US dollars converted from local currencies at official exchange rates.

b/ The two sets of data for Pakistan are based on assumptions that (1) US economic assistance will be resumed at the high levels needed to fulfill plan goals or that (2) US economic aid will be on a much lower level and military assistance will not be resumed.

c/ Estimated GNP for 1965 is based on the reported GDP for FY 1964-65.

d/ The two percentage growth figures represent estimated growth rates for the years 1966-70 and 1971-76 respectively.

Figure 2

Population Growth
for Selected Asian Countries, 1965-1976

Country	Average Annual Rates of Growth (Percent)	Population (Millions) 1965	Population (Millions) 1976
Japan	1.1	97.9	110
India	2.4	485	630
Pakistan	2.7	112	151
Ceylon	2.76-2.79*	11.3	15.2
Burma	2.2 -2.33*	24.7	31.7
Thailand	3.14-2.82*	31.1	42.9
Philippines	3.65	32.3	47.9
South Korea	2.85-2.75*	28.3	38.4
Taiwan	2.5 -2.1*	12.4	15.9
Indonesia	2.4 -2.6*	106	137
Malaysia	3.22-3.28*	9.4	13.1
Singapore	3.7 -3.6*	1.97	2.86
South Vietnam	2.5	15.9	20.9
Cambodia	2.7	6.1	8.2

* The first figure is growth for 1966-70 and the second for 1971-76.

Thailand is placing added emphasis on development in backward areas -- particularly the Northeast; and the Malaysian plan calls for a more rapid rate of growth for the backward Borneo states, Sarawak and Sabah. Similarly, in the Philippines the problem of wide differences in income levels is being addressed by the new administration of President Marcos. Actual achievements, however, are likely to fall short of goals. Taiwan is one of the few Asian countries where rural incomes have enjoyed an increase along with urban incomes. The extent to which such goals are accomplished will influence the susceptibility of many of these countries to pressures for increased political and economic relations with Communist China.

There are, of course, considerable hazards in projecting economic growth of countries where government control is subject to sudden change, where the economic growth of developing countries is influenced strongly by the availability of external economic assistance, and where the intricate interrelationships of the resources and products of developed and developing countries is undergoing continual revision. Moreover, the accuracy of base year data varies widely among the several countries. For the most part, 1964 GNP data have been projected to 1965 and adjusted for estimated price changes based on most recent field reporting. All value data are given in 1965 current prices and have been converted to U.S. dollars at official exchange rates. Projections of population are based on estimates of growth contained in the United Nations Provisional Report on World Population Prospects as Assessed in 1963 as applied to estimated mid-year 1965 populations.

II. Regional Development and Economic Growth

Considerable emphasis is being given currently to regional development in Asia as evidenced by an increasing number of projects of ECAFE and the Mekong Committee, the forming of the Asian Development Bank, the proposals by President Johnson in April 1965 for massive economic assistance to Southeast Asia, and the proposals by the Japanese government for an Asian Agricultural Development Fund. Except for the multinational programs initiated under ECAFE, the best known of which are the Mekong Project and the Asian Highway, there appear to be few truly regional projects for Asia, and development will necessarily focus on national programs. The existence of the Asian Development Bank and the additional economic assistance offered by the United States and Japan will, at best, provide additional sources of credit for essentially national programs. In terms of the basic assumptions for this paper, regional development programs as now constituted should contribute to sustained present levels of growth but will provide no measureable net increments to growth forecasts for the area as a whole. Furthermore, the impact of the more extensive regional programs now contemplated or underway will not be apparent until the later years of the decade.

Although economic cooperation through regional organizations has been continued despite intra-regional political confrontations, adverse political relations have limited the effectiveness of such programs. The Mekong Committee, composed of Cambodia, Laos, South Vietnam, and Thailand and functioning under the aegis of ECAFE has, thus far, been involved in projects that have been primarily national in scope, centering on flood control, electric power, and irrigation. As national projects, they have not been affected by stained political relations between member nations. The reluctance of Cambodia to initiate projects and the expected adverse reaction of Cambodia toward detailed regional economic studies, however, may hamper the Mekong Committee in its overall responsibility to establish a rational development plan for the entire Lower Mekong Basin. Moreover, future arrangements for sharing electric power, as between Laos and Thailand for power generated by the Nam Ngum facility in Laos, increasingly will provide opportunities for political conflicts. Another example of the effect of political interference on regional programs is the Association of Southeast Asia -- an organization to further economic cooperation between Malaysia, the Philippines, and Thailand -- which was shelved during the period of estranged political relations between the Philippines and Malaysia. Thus, the likelihood of continuing political disputes limits the potential effectiveness of totally regional development programs and places the burden of support for development on sub-regional programs and on bilateral assistance from developed countries for national development projects.

From the standpoint of regional assistance, the principal contribution to economic growth in Asia will be derived from the number of small ongoing regional projects that are directed at education and the general improvement of levels of technology. These will result in an upgrading of the total human resources of the area. Because the application of new skills can best be implemented within controlled and relatively limited areas, however, the effect on national economic goals will be slow in coming. The improvement of agricultural productivity is a field that can benefit measureably from developments in the regional technical institutes. Considerable yield increases can be derived merely from increased applications of fertilizer and the use of improved seeds that are already available. Further increases in productivity, however, depend increasingly on technology that is developed in the field under local conditions. Thus, the regional institutes must train competent technicians in numbers adequate to serve thousands of localities with differing physical conditions. This adds to the time required to achieve measureable gains on a national basis. Similar problems exist in improving health and sanitation conditions, in reducing the levels of illiteracy and improving housing conditions. Some progress is being made under national programs as well as sub-regional programs and there is reason to be optimistic about long-run prospects for improvements in agriculture and social conditions.

Recent reverses in Communist China's international position probably will affect adversely the extent of Chinese economic involvement in developing Asian countries for a number of years. Except for Pakistan, Ceylon, Nepal, Burma, Indonesia and Cambodia, Chinese economic assistance programs in Free Asia are non-existent. The political upheaval in Indonesia with the immediate association of the pro-Peking Indonesian Communist Party (PKI) with the coup and the subsequent elimination of hundreds of thousands of members and sympathizers of the PKI should dampen the enthusiasm of developing countries for allowing Communist China to increase her political and economic influence within their national boundaries. Economic relations with China -- primarily trade -- may increase in a number of the countries on the periphery as indicated in the individual country projections. These increases, however, will be based more and more on strict commercial transactions. The absence of a great degree of complimentarity between the economies of the developing Asian nations and that of Communist China will limit the rate of growth of economic relations.

III. The Rice Outlook and China's Food Problems

The question of whether the rice-producing countries bordering on Communist China could, under Chinese control, make a significant contribution to China's food supply has been addressed recently in an ORR publication.* In this report it was concluded that with a hypothetical but possible short-run increase in output of 31 percent achieved through a 25 percent increase in productivity and a 5 percent increase in acreage, a takeover of these countries /Burma, Thailand, Cambodia, and South Vietnam/ for the resulting increase in the area's food surplus of the magnitude of 5.4 million tons of milled rice would not be justified on economic grounds. The CIA report concludes further, that:

> "Realistically, the probable social and political dislocations resulting from a takeover would preclude any significant increases in the area's food surplus in the foreseeable future and might well reduce it, as was the case during the Japanese occupation in World War II. It is possible however, that the potential for a relatively small food increase would provide China with an added inducement for a takeover it regarded as desirable on political grounds."

Projections of the status of rice availability in Asia through 1976 would be extremely tenuous because of the many unknown factors in all countries but particularly because of those unknowns represented by such significant consumers as India and Indonesia (combined populations in 1976 of about 750 millions)

* CIA/RR EM 66-5, March 1966, The Potential for Increased Food Production in Continental Southeast Asia Under Chinese Communist Control, Secret.

and the important "rice bowl" producers, Burma and South Vietnam. Even projecting to 1970 has resulted in various estimates of the possible rice outlook ranging from a possible but not probable net exportable surplus from major Asian producers (excluding China) of about 2 million tons to a shortfall of as much as 5 million tons. Exports of rice from the Southeast Asia "rice bowl" totaled about 3.3 million tons of milled rice in 1965. The majority of these exports were to other Asian countries. Although increases in output by most Asian countries are projected for the years through 1976 and the increase could be significantly large in some countries, the probable per capita expansion of rice output for Asia, with its high population growth rates, does not indicate a significant surplus by 1976.

Conditions for rates of increase in rice yields sufficient to more than compensate for population growth have not been present in most of the Asian countries. According to generally accepted preconditions for agricultural development, relatively few Asian countries have been in a position to achieve significant gains in agricultural output to date. These preconditions would include: a will to develop agriculture in the minds of at least some of the national and local leaders; a modicum of political stability and continuity; a minimum corps of administrative and organizational talent and a few nationals thoroughly trained in agriculture; expanding markets for the products of agriculture; and domestic and foreign resources for necessary capital inputs. Add to this other necessary conditions such as infrastructure to facilitate marketing, a fair and reliable return to the farmer, credit, and technical assistance, and the wonder is that any growth in agricultural output has been achieved in past years by underdeveloped Asian countries.

Looking to the future, in the light of conditions that exist today, it is fairly certain that the widespread national and international emphasis on food production and the increasing availability of foreign capital for the major inputs must necessarily lead to conditions for future increases in productivity that would exceed those of the past. Significant increases in rice production through improved inputs, increased acreage, and beneficial government policies are considered possible in Thailand, Malaysia, Indonesia, Ceylon, Pakistan, and India within the next 10 years. The principal unknown factor governing the extent to which these increases will be achieved is the attitude of the governments toward agricultural development and marketing policies for agricultural products. If government support is provided and important output increases are achieved the probability of China occupying peripheral countries to fulfill food requirements is still a matter to be decided on political rather than economic grounds.

IV. Economic Projections, by Country

1. Japan

Long-term projections of the Japanese economy have become considerably more difficult as a result of the nature of the current business slowdown. A distinct cyclical pattern was observable during the 'fifties and early 'sixties, and government policy for overcoming slowdown in this period was heavily reliant on monetary measures. The success of these monetary measures depended in part on the strong positive expectations of Japanese investors. The present "recession", in contrast to the readily identifiable inventory adjustment cycles of the past, is complicated by structural changes in demand, the emergence of an autonomous fixed investment cycle, and the overextended financial position of many firms. Notable lags in demand for a wide range of consumer durables have contributed to a marked dampening of business spirits, and large numbers of bankruptcies in small- and medium-sized firms have injected a sobering note into expansion plans in the private sector.

In this environment, the traditional monetary remedies have proved wholly inadequate to stimulate investment, and the neutral posture of government in fiscal policy in the postwar era has been called into question. The debate on government's economic role has come at a time of increasing concern for the unsettling side-effects of excessively rapid growth and for the lag in investment in the public sector. The results of the debate have been the acceptance, at least for FY 1966,* of a dynamic fiscal policy and the emergence of a national economic goal of "stable" (i.e., steady, rather than excessively rapid) growth.

Clearly, the experience of average annual growth of GNP of about 10 percent in the decade ending in 1964 is not liable to be repeated for the period from 1965 through 1976. The most recent economic planning has called for attainment of a growth rate of 7-8 percent for the fiscal years 1966 through 1968, and this performance would be a significant improvement over the estimated GNP growth of 2.7 percent in FY 1965. Steady economic recovery during 1966 should result from deficit financing by the national government and improved business expectations.

Over the longer run, an optimistic view would put the Japanese growth rate at an average of 6 percent through 1976. The attainment of this average rate would probably require a strong recovery from the present slowdown, the steady introduction of new products in the consumer durables lines, sustained favorable demand for Japanese exports of manufactures, improvement in the timing by the government of monetary measures to offset the trade cycle, and continuation of the dynamic government fiscal policy. This optimum combination would lead to a GNP of some $148 billion in 1976. A more modest growth rate of 5 percent per annum, leading to a 1976

* The Japanese Fiscal Year begins on 1 April of the year stated.

GNP of $134 billion, could be based on an assumption that government would be hesitant in stabilizing the growth rate through fiscal stimulants, that government would repeat the poor performance in monetary action of the 1962-64 period, or that conditions in the Japanese export markets would deteriorate significantly. The most pessimistic circumstances for all of the above factors combined with marked lags or declines in productivity in the less advanced sectors of the economy migh lead to an average growth rate as low as 3 percent and a 1976 GNP of about $108 billion. This pessimistic case appears to border on the incredible, however, for the postwar success of the Liberal Democratic Party has been the result largely of rapid economic improvement, and the Liberal Democrats would more willingly expand the economic role of government than lose office to the Socialists. In none of the long-range possibilities considered here is there any apparent reason to suppose that a scarcity of domestic capital for investment will act as a restraint on sustained economic growth.

Through 1970 it is likely that a recovered domestic demand for manufacturing output and investment in manufacturing will pull the growth rate along at an average in excess of most other advanced industrial nations. It is, however, also probable that wide cyclical swings will be tempered by a more dynamic fiscal role for government and that investment in the public sector, which has lagged badly in the postwar era, will be substantially increased.

This investment will have its principal effects on the construction sector. The share of manufacturing in national income will probably tend to stabilize between 1970 and 1976 within a narrow range only a little above the current 31 percent. Between now and 1976, labor shortages in the more productive sectors will continue to draw workers from agriculture, small-scale industries, and retail trade; and productivity in these traditional sectors will suffer. By the end of the period, the contribution of agriculture, forestry, and fisheries to domestic national income might be below 10 percent compared to the current 12.5 percent.

Significant structural changes in manufacturing and agriculture will probably be prominent features of the Japanese growth pattern between now and 1976. Both horizontal and vertical integration in manufacturing firms have characterized the 1965 business slowdown, but horizontal integration has been more important as numerous bankruptcies in medium-size firms have signaled the generally overextended financial position of Japanese industry. Although this sort of adjustment will continue to occur over the next few years, it is likely that vertical integration of the relatively inefficient small-scale producers of components into the larger manufacturing firms will assume greater importance as the rate of wage increases in small-scale industry outpaces productivity gains. Structural changes in agriculture would center on the increase in the size of landholdings to facilitate use of more complex capital equipment. The stimulus for such a change would come from the requirement to sustain productivity as the most efficient rural laborers were drawn into the city by industrial labor shortages.

By 1976 the GNP per capita would probably be between $930 and $1,400 in 1965 prices.* Thus, in rough terms, the Japanese economy would enjoy a living standard more comparable to those of Western Europe than of Asia and might approach the current living standard of the United Kingdom. The gains in living standards will manifest themselves in further improvement of the Japanese diet with continuing displacement of fish and rice by meat and dairy products, in the steady increase in ownership and renting of automobiles, in some alleviation of current housing pressures, and in a decline of the average age at which Japanese marry. By 1976 the responsibility of government in providing unemployment benefits and job retraining should be considerably enlarged as private industry resorts to layoffs more frequently than wage cuts.

Underlying the more optimistic growth conditions and economic achievements described above is the assumption that there will be no radical changes in Japan's external economic relations. Prominent

* This estimated range is based on the growth rates noted above and a range of population projections extrapolated from a study by the U.S. Bureau of Census in May 1964. The data of this study (which assumes various gross reproduction rates) yield a low population estimate of 106.7 million and a high estimate of 116.4 million for midyear 1976. A figure of 110.2 million (based on a median reproduction rate) is used for the purposes of other tabulations in this paper.

among the determinants of the stability of Japanese economic growth is the nation's international payments position. Although there is no immediate reason to suppose that the conditions of the world market for Japanese exports will undergo major changes, it is important to remember that sustained economic growth in the United States and Western Europe is important to the Japanese economy. At present the United States accounts for about 30 percent of the value of Japan's export and import trade, and the continually increasing sophistication and improvements in quality of the manufactured products that make up over 90 percent of Japanese exports suggests that the focal importance of markets in the United States and other advanced industrial nations will become more pronounced through the 1970's. Trade with the underdeveloped nations will reflect both the continuing efforts of the Japanese to broaden the geographic distribution of raw materials' sources and the limitations on purchasing power in most of the underdeveloped world. Efforts to overcome the problem of purchasing power will probably include increased economic assistance (in particular, more generous terms for medium- and long-term loans), tariff preferences, and selective import subsidies for underdeveloped nations. Nevertheless, the present significance of trade with underdeveloped nations to the total trade of Japan at best will probably remain about the same between now and 1976.

The share of total Japanese trade accounted for by Communist countries appears to have reached a plateau in 1965 at about 6 percent. A five-year trade agreement concluded with the USSR in January 1966 is expected by the Ministry of International Trade and Industry to produce a trade turnover of $450 million in 1970 compared to $409 million in 1965. Discussions of joint development of natural resources in Sakhalin could lead to a limited boost in Soviet-Japanese trade, but, neither this project nor any of those occasionally mooted for Siberia is likely to radically revise the fact that the USSR accounts for only 2.5 percent of overall Japanese trade.

A slightly greater share of Japanese trade is with Communist China. Unusually rapid recovery in Japanese trade with Communist China followed the lull brought on by a Chinese embargo on Japanese goods in retaliation for a political incident in 1958. Negotiations for 1966 trade under the semi-official Liao-Takasaki Trade Agreement were widely characterized as disappointing by the Japanese. Although Chinese Communist trade through the so-called "friendly firms" channel may show a sufficiently rapid growth over the next few years to spur total Sino-Japanese trade, continued diversion of trade outside the Liao-Takasaki framework will probably discourage any significant relaxation of the tight line on long-term credits to Communist China by the Japanese Export-Import Bank. Between now and 1970 it appears likely that extensions of these credits, which are distinctly important to further expansion of trade between the two countries, will be significantly inhibited by U.S. and Chinese Nationalist pressures, by the growing concern of the Sato administration for the belligerency and new nuclear capability of the Chinese Communists, by the delicacy of the Vietnam situation, and by the uncertainty of an economic relationship subject to political whim. Over the longer run, the possibility cannot be ruled out that the pressures of Japanese businessmen will lead to a general relaxation of credit to Communist China, but it is difficult to foresee that such a relationship would evolve to a point comparable to the current one with the USSR. Were the Chinese Communists to propose joint development of resources on the Mainland, a few Japanese firms might evince some interest in participation, but large-scale or sustained investment activities would be highly unlikely given the relative attractiveness and security of investment in numerous advanced and underdeveloped nations of the Free World and continued Japanese efforts to diversify the sources of raw materials.

2. India

Indian economic growth for the period 1966-76 will depend principally on the degree to which measures to improve agricultural output are successfully implemented and on the uncertain Indian monsoons. Agriculture, the most important sector of the economy, makes up some 45 percent of GNP. GNP increased an average of about 4 percent per year during the first 4 years of the Third Five-Year Plan (1961-66) in contrast to a planned increase of some 5 to 6 percent. During these four years, which included one year of exceptionally good weather, agricultural output increased only an average of about 2.6 percent per year, also below plan. Moreover, during FY 1965,* the final year of the Third Plan, agricultural output suffered a drastic reduction because of extremely bad weather. Primarily as a result of this one bad agricultural year, the average annual increase in GNP was bought down to less than 3 percent for the Five-Year Plan period. It is estimated that per capita GNP in FY 1965 was about $107. Principally because of the expected continued low agricultural output, it is estimated that GNP will increase at an average annual rate of 4 percent through 1976 with per capita GNP increasing to $127. It is estimated that a growth rate of 5 to 6 percent could only be achieved if the government reverses its past policies and affords

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* Indian fiscal year begins on 1 April.

agriculture priority over industry. In this event per capita GNP would increase to about $150.

The rate of increase in foodgrain production which makes up some 70 percent of total agricultural production is the principal determinant of the status of agricultural development in India. Foodgrain output, however, varies widely from year to year. During 14 years of the first three Five-Year Plans (1951-64) an average annual growth rate for foodgrain of about 3.5 percent was achieved. By adding estimated production in 1965, however, the average growth rate for 15 years drops to about 2.5 percent. Despite this low level of achievement over the past 15 years the GOI has tentatively adopted a plan goal to increase foodgrain production annually by some 8.5 - 10.5 percent to attain an output of about 125 million tons in 1971 -- a plan which appears to be unrealistic. We estimate that such a level of production will not be achieved much before 1976 as it is doubtful that agricultural growth much above 4 percent can be sustained.

Aside from the staggering organizational and institutional problems of providing millions of Indian peasants with incentives to increase farm output, Indian agriculture suffers from deficiencies of almost all inputs, including water. Almost 80 percent of India's crops depend on uncertain rainfall rather than on modern methods of irrigation. As a result, low rainfall inevitably leads to a poor crop and for some time to come uncertain monsoons will greatly affect annual farm output. During the 1964-65 crop year, for example, when the monsoon was exceptionally good, agricultural production increased 7 percent, whereas during 1965-66 when the monsoon failed, production declined by about 12 percent.

Regardless of the weather, India could attain substantially increased agricultural production if agricultural development is given priority over heavy industrial development. Although there is some evidence that India intends to give agriculture such a priority, it is doubtful that very much will be accomplished soon. Agricultural development depends on the availability of foreign technical and economic assistance at much greater levels than the massive quantities already received. There is little evidence that the government intends to relax significantly its doctrinaire rigidity and bureaucratic controls in order to encourage either domestic or foreign private investment in agriculture. Resistance has already been manifested to some of the limited fertilizer price and distribution liberalization measures adopted to attract private investment into the construction of fertilizer plants. A number of the proposed limited crash-type measures to increase agricultural production on the best acreage by the use of better seeds, improved irrigation, and more fertilizer should yield some gains in output. In addition, however, more attention needs to be given to security of tenure, to improved credit in the villages and to the establishment of a truly national agricultural policy. If the GOI, contrary to its past policies, vigorously pursues a policy of agricultural development on a priority basis it is estimated that over time, average annual increases in agriculture on the order of about 5 percent could be achieved.

Industrial growth during the Third Five-Year Plan was better than that of agriculture but its influence on economic growth was less because it makes up only about 18 percent of GNP. Industrial production increased an average of slightly less than 7 percent per year during the first three Five-Year Plans. It is estimated that India may achieve a 7 to 8 percent average annual growth rate for industry through 1976.

As in agriculture, India's industrial growth is extremely vulnerable to changes in foreign aid levels. Since 1950 some $7 billion (excluding U.S. PL 480 surplus agriculture products) in economic aid has been extended to India from the Free World. About $4.6 billion of this was extended during the Third Five-Year Plan. Because of the rapidly increasing foreign debt repayment burden (now taking some 40 percent of every economic aid dollar) foreign assistance levels must be sharply increased, just to maintain levels of net foreign economic aid. If net foreign aid levels are permitted to decline industrial production will suffer and GNP growth rates will be adversely affected. On the other hand, if India receives foreign aid at the optimum levels and adopts a number of recommended economic reform measures to encourage exports, to relax domestic economic controls, to liberalize imports and to improve the investment climate for foreign investors industrial production could increase annually by 10 to 11 percent through 1976.

India's population is expected to continue to increase at the current 2.4 percent rate. The small family planning program thus far underway cannot be expected to result in any significant fall in birth rates through 1976. Even though the program will expand somewhat in the near future the resulting decline in birth rates is expected to be so small during the next 10 years that it will be almost completely offset by the declines in mortality rates resulting from expanded medical aid programs -- particularly the extensive program of vaccinations.

3. Pakistan

Under the Second Five Year Plan (FY 1961 - FY 1965),* Pakistan's economic growth has proceeded at a relatively rapid rate. GNP in real terms increased an average of about 5.4 percent per year with per capita GNP increasing at an annual rate of about 2.7 percent. The utilization of large sums of foreign economic assistance, amounting to about 38 percent of total development expenditures under the plan, permitted substantial government investment in infrastructure, while the private sector was encouraged by a favorable business climate to undertake substantial industrial investment. The favorable achievements of the completed Second Five Year Plan have established a sound base for the Third Five Year Plan (FY 1966 - FY 1970), which was begun in July 1965.

Prospects for attaining the goals of the Third Five Year Plan, however, are uncertain. During the Indo-Pak hostilities in the fall of 1965, for example, U.S. military aid was terminated and domestic resources were diverted from development to defense, resulting in a shortfall in government expenditures of about 24 percent in FY 1966. The United States was expected to provide economic aid amounting to about 16-17 percent of total development expenditures under the Third Five Year Plan but has not yet pledged aid for the Plan. Because of the uncertainty concerning U.S. aid,

* Fiscal Year begins 1 July - 30 June.

two sets of projections have been made. The first assumes U.S. aid (both economic and military) at the high levels needed to fulfill Pakistani plan goals, and the second projection assumes U.S. economic aid at a much lower level and no U.S. military aid. Both projections assume that economic development remains a primary national goal and that no further hostilities with India will occur.

On the basis of continued U.S. aid at high levels, the 20 year Perspective Plan (FY 1966 - FY 1985), as developed by the Government of Pakistan, projected an annual increase in GNP of 7.0 percent during FY 1966 - FY 1975. Although the stable and balanced pattern of recent economic growth in Pakistan makes it likely that substantial growth can continue, it is doubtful that this target can be fulfilled. Since agriculture accounts for about 50 percent of GNP, the difficulties inherent in expanding the use of modern inputs within a traditional backward agricultural sector will probably prevent the attainment of plan targets. Although it is still possible to expand crop acreage in West Pakistan by increasing the availability of irrigation water, any substantial increase in agricultural output in East Pakistan must come primarily from increased crop yields. Thus, for normal conditions of growth, it is estimated that GNP will increase at an average annual rate of 6 percent through 1976. At this rate, GNP would nearly double to $18.17 billion with per capita GNP increasing by over 42 percent to $121 in FY 1976. It is estimated that the planned growth rate of 7 percent per year is the maximum rate that can be sustained from 1965 to 1976. At such a rate, GNP would increase to $20.14 billion with per capita GNP increasing to $133 in 1976. Even under adverse conditions including poor weather and greater shortfalls in the expansion and introduction of modern agricultural inputs, we estimate that GNP would increase by 4.0 percent per year to $14.73 billion with per capita GNP increasing to $98 in 1976.

Under the assumption of minimum U.S. economic aid and no military aid, economic growth in Pakistan through 1976 would be slower. Although the loss of U.S. aid probably would be offset somewhat by increases in communist aid, foreign exchange shortages would probably become acute. The impact of this shortfall in foreign exchange would be principally on the industrial sector which is heavily dependent on western imports for raw materials and spare parts. Agriculture would also suffer from restricted fertilizer imports. In these circumstances it is estimated that GNP would increase at about 5 percent per year during 1966-76. Although this rate is considerably below the plan targets, it is nearly as high as that achieved under the Second Five Year Plan. GNP would increase by over 70 percent to $16.37 million with per capita GNP increasing to $109 in 1976. We estimate, however, that within the framework of minimum U.S. economic aid, other adverse domestic conditions could reduce the average rate of increase of GNP per year further to 3.5 percent, whereas under ideal conditions the rate could increase to 6 percent. Even under these adverse economic conditions GNP would increase by nearly 50 percent with per capita GNP increasing to $93 in 1976.

The potential for increased trade between Pakistan and Communist China would appear to depend partly on the availability of U.S. aid. Pakistan's foreign trade is expected to grow rapidly during 1966-76 with increasing imports of capital goods, primarily from aid donor countries. Pakistani imports from Communist China will increase somewhat in proportion to Chinese aid, which in turn will probably increase if U.S. aid declines. We estimate that Pakistani exports to Communist China, however, will continue to expand regardless of the volume of Chinese aid. Communist China's share of Pakistani exports already has increased from 4 percent in FY 1961 to 7 percent in FY 1965 with no Chinese aid.

4. Ceylon

Ceylon's GNP has grown at an average annual rate of 3.4 percent during the years 1961-65, and it is unlikely that this growth rate will increase significantly in the period through 1976. Agriculture contributes about 45 percent of GNP and has grown at an average annual rate of less than 2.5 percent during the past five years. Agricultural production should continue to increase at a somewhat higher rate with increased use of fertilizers and better cultivation techniques, but adverse weather conditions in any one year could severely affect the average agricultural growth rate. Industry at present accounts for less than 10 percent of Ceylon's GNP. Although possibilities for expansion exist, growth will be limited by both the size of the domestic market and the high import component of manufacturing in Ceylon.

Ceylon's annual growth rate will probably average about 3.5 percent per year through 1976. Particularly adverse weather conditions might lower the rate to 3 percent. A rate as high as 5 percent might be possible if current plans to increase agricultural and industrial production are efficiently executed, but performance in the past suggests that this is unlikely. Per capita income in 1965 averaged $135. The projected average GNP growth rate of 3.5 percent, coupled with a high population growth rate, would yield a per capita income of only $145 by 1976. Under ideal conditions per capita income might reach $170, and under adverse conditions increase to only $138.

Ceylon's population growth rate will probably continue to be high, around 2.8 percent per year. The eradication of malaria after World War II, coupled with improvements in public health services, have made Ceylon's mortality rate relatively low. Fertility probably will not decline significantly because of improvements in public health and resistance to family planning.

5. Burma

Burma's rate of growth of Gross National Product (GNP) has been limited in recent years by the government's shift to a socialist economic system and the policy of limiting foreign contacts. Private foreign investment has not been a factor for sometime, and the shortage of such investment has not been made up by government investment on a significant scale. The $84 million credit extended by Communist China in 1961 has made a contribution to industrial capital investment, but the pace of drawings has been slow. An additional adverse factor has been the inability of the government to cope adequately with the burden of the nationalized distribution system. Problems of production have extended to the agricultural sector which accounts for 1/3 of Burma's GNP. The total impact of the various difficulties was a decline of 3.5 percent in Burma's GNP in real terms in FY 1963/64.* Government data for 1964/65 indicate a recovery to about the level of 1962/63.

The economic difficulties that Burma has experienced in the past few years are likely to remain unresolved in at least the near future, with a resultant constraint on the rate of economic growth. The probable and the optimistic projections, therefore, indicate

* Burma's fiscal year runs from 1 October - 30 September.

slightly greater growth after 1970 than from 1965 to 1970, on the assumption that the present government will survive and will achieve some improvement in its economic management. The projections are based on the Burmese government's revised estimate of GNP in FY 1964/65, although the figure may be somewhat high. The most probable growth rate of GNP is estimated at 3.5-4.0 percent, higher than the average annual rate of 3.0 percent experienced between 1958/59 and 1963/64 (which reflects the downturn in 1963/64). This rate of growth would increase per capita GNP from $71 in 1965 to $84 in 1976, a rise of 18 percent. Should the government rationalize and improve its economic policy, Burma's resources could make possible a growth rate of 4.5-5.5 percent, with a consequent increase to $96 in per capita GNP by 1975/76. Serious failure of government policy or several years of adverse weather could keep economic growth as low as 2.5 percent per year; such a rate would scarcely keep pace with population growth and would leave per capita GNP virtually unchanged.

Communist China's share of Burma's imports rose from 8.1 percent in 1958 to 11.3 percent in 1963 (compared with a 21.3 percent share for Japan). Up to 50 percent by value of Burma's imports from China are textiles, with hardware, chemicals and glassware being other important imports. China, however, has been taking a negligible share of Burma's exports, buying primarily salt and raw cotton. Burma's trade deficit with China in 1964 was financed through part of the Chinese aid credit. Unless this imbalance of trade can be eliminated, it appears unlikely on economic grounds that Burmese trade with China will expand significantly in the near future. Burma, however, feels a political need to maintain good relations with its neighbor, and this fact, together with the aid extended by China, will keep the share of imports coming from China at appreciable levels.

6. Thailand

The pattern of economic growth in Thailand during the past several years has been one of the most favorable in Southeast Asia. The government's investment program has stressed development of infrastructure, while the private sector has been encouraged by a favorable business climate to undertake industrial investment on a substantial scale. Thailand's GNP has grown at an average annual rate of 6.7 percent in real terms since 1960, and the government's conservative financial policies have prevented problems of inflation. Foreign assistance and investment have made it possible for Thailand to increase its foreign exchange reserves substantially despite recurring deficits in commodity trade. The favorable achievements of the almost-completed National Development Plan (1961-1966) have established a sound base for the Second Development Plan (1966-1971) scheduled to begin late this year.

The new plan anticipates $5 billion in investment (1/3 in the public sector, 2/3 in the private) for the five year period. In response to political as well as economic criteria the agricultural sector will receive special emphasis. After recently revised national income data indicated the substantial growth of the past few years, the government announced its intention to achieve annual growth rates in excess of 8 percent during the coming decade.

Because of the stable and balanced pattern of recent economic growth in Thailand, it is believed likely that growth until 1976 can continue to be steady and substantial but probably less than the government's target rate. It is assumed that insurgency in the Northeast Region will not reach proportions that will seriously impair economic growth. To establish the probable economic outlook for 1976, Thailand's GNP for 1965 has been projected at a constant rate of 6.5 percent per year in real terms. This rate, slightly lower than the average rate of the past few years, would double GNP, to $7.6 billion, with an increase of 45 percent in per capita GNP, from $123 in 1965 to $178 in 1976. A more favorable growth rate of 7 percent per year is suggested as the maximum average rate sustainable from 1965 to 1976. Lower than the government's goal for the period, this rate would increase per capita GNP from $123 to $187. With a lower growth rate of 6 percent per year per capita GNP would rise from $123 to $169. Possible limitations that would adversely influence Thai economic growth include shortages of skilled manpower in the short run and an increasing debt burden later in the period. Several years of poor crops could also adversely affect the average growth. Preliminary data for 1965, for example, indicate a GNP growth of only 5.7 percent due in part to the impact of poor weather on agricultural output.

Thailand's growth will be reflected in a rise in foreign trade, with imports of capital goods increasing along with increases in exports of agricultural and other primary commodities. It is unlikely, however, that Thailand will develop trade relations with Communist China given political conditions approximating those existing at present. In part this will be because Thailand is unwilling for political reasons to establish economic ties with China, but also because the two countries are unlikely to become natural trading partners. Thailand's needed imports of capital goods will come from countries supplying investment funds, and Thailand's agricultural exports are not the types China will be likely to import on a large scale.

7. Malaysia

Between 1960 and 1965, the Malaysian economy has grown at an average rate of 5.8 percent per annum. This relatively good growth has occurred despite a substantial decline in the country's terms of trade caused mainly by a fall in world rubber prices. Per capita income, however, has only grown at a rate of 2.7 percent because of the high rate of population growth -- over 3 percent annually.

Although the government has increased its development efforts in recent years, the Malaysian economy still faces a number of basic problems. The most important of these problems is the continuing heavy dependence of the economy on exports of rubber and tin. Approximately 70 percent of total exports and 30 percent of GNP are directly based on rubber and tin. Prices of both commodities have been subject to wide fluctuations and over the next several years prices are expected to decline. The expected expansion of rubber production should more than offset the decrease in prices but the value of tin exports is likely to fall and total export earnings probably will stagnate.

The government's long term development strategy is designed to overcome this dependence on rubber and tin by stimulating new kinds of economic activity both agricultural and industrial. The first Malaysia Plan (1966-70) calls for government expenditures for economic and social development of $1,245 million. Of this, about $500 million will be spent for education and agricultural and rural development. The plan is designed to achieve increases in GNP of 4.9 percent annually between 1966-70 and projects a further growth rise of 5.5 percent between 1970 and 1975.

A maximum average annual rate of growth of 5.5 percent through 1976 could be achieved if favorable prices for Malaysia's exports are sustained and if substantial foreign economic assistance is obtained to assure fulfillment of investment plan goals. An average annual rate of growth of 5.0 percent -- the five year plan goal -- could be attained assuming rubber prices continue to fall. (The Malaysia plan assumes a 20 percent decline in rubber prices). This 5 percent rate still presupposes that funds will be available for projected development of agriculture and industry and that some growth can be encouraged in the economies of Sarawak and Sabah through the infusion of development funds. A minimum rate of 4.0 percent is possible under adverse conditions that would include a deteriorating political situation and the resultant discouragement of foreign investment. A 4.0 percent growth rate would result in a per capita income of $353 in 1976, compared to a $392 per capita income achieved with a 5.5 percent rate of growth.

8. Singapore

The prospects for continued economic growth in Singapore during the next ten years are highly uncertain. Singapore's continued economic strength will depend on the maintenance of existing economic ties with Malaysia and the continued use of its entrepot facilities by neighboring countries. Between 20-30 percent of the country's GNP is derived from trade and related activities. The loss of any of this trade has serious repercussions on the domestic economy. Between 1963 and 1964, the rate of economic growth declined from 6.5 percent to 0.5 percent, primarily because of the effects of confrontation on trade and, had the trade embargo been completely successful, there would probably have been a more severe slowdown. Over the long run, it is estimated that Singapore's entrepot trading activities will decline and new sources of income will be needed.

In addition to the problems posed by the loss of entrepot trade, the future of the British base in Singapore is likely to have a significant impact on the economy of the country. The base now contributes between 20-25 percent to Singapore's GNP. By 1976, however, it is assumed that the base will at best be little more than a stand-by facility, and its contribution to Singapore's economy will be substantially diminished.

To accomodate the expected decline in entrepot trade and the loss of the British base the Singapore government has promoted an ambitious industrialization program. At present, however, manufacturing accounts for only 14 percent of GNP, substantially below the contribution of either entrepot trade or the British base. Further industrialization presents problems, moreover, for lacking domestic sources of raw materials, Singapore must depend on imported raw materials. In addition, the Singapore population of about 1.8 million does not provide a market sufficient to warrant substantial new industrial investments for local consumption alone. Therefore, unless Singapore can maintain a continuous expansion of domestic manufacturing services and successfully develop new markets for its manufactured products, serious economic problems are likely to develop. One bright cloud on the horizon is the possible prospect of resumption of a portion of the economic relations once enjoyed with Indonesia.

It is unlikely that there will be a substantial expansion of Singapore's trade with Communist China or with other Communist countries. Singapore now sustains a substantial deficit in its trade balance with Communist China and although China may be willing to increase its rubber imports from Singapore it is unlikely to alter significantly the trade balance which provides substantial foreign exchange earnings. Other communist countries may establish various trade missions in Singapore but unless some communist economic credits are forthcoming there is little reason to expect a significant expansion in Singapore's trade with the communist countries.

An average annual rate of growth of 5.5 percent through 1976 is estimated as a high but possible goal. Such a rate of growth would depend on continued close economic ties between Malaysia and Singapore, a continuation of Singapore's importance as an entrepot for trade, the resumption of some trade with Indonesia, continued growth of the industrial sector and retention of the British base for a maximum period during the decade. A more probable rate of growth of 4 percent would be possible if the British base were closed by 1970 but other factors were favorable. A minimum rate of growth of 2 percent is projected. This rate is possible under adverse conditions including the withdrawal of the British base, a substantial decline in entrepot trade, and strained relations between Malaysia and Singapore. A 5.5 percent rate of growth would result in a per capita income of $536 in 1976, compared to a per capita income of only $370 with the 2 percent rate of growth and the concurrent 3.6 - 3.7 percent annual increase in population.

9. Indonesia

There are two major factors limiting the certainty of estimates of future rates of economic growth in Indonesia. First is the absence of reliable and consistent statistics on which to base a comprehensive picture of past economic performance. Second, is the confusion of the present political situation and the uncertainty of its outcome, and the depressed state of the economy today.

Between 1951 and 1959 the economy expanded at an average annual rate of 4.2 percent. There was considerable unevenness in the pattern of growth for in the early part of the decade the country realized substantial growth as a result of post-war rehabilitation. By the end of the decade, however, stagnation had set in. No annual data are available on rates of economic growth since 1959, but AID estimates GNP in 1963 at $8,065 million. Between 1963 and 1965 no expansion has taken place in the economy -- industry is still operating at about 25 percent of capacity and there has been no significant increase in agricultural output. Thus, the figure of $8,065 million has been used as the estimated GNP for 1965 and the base for our projections.

It is unlikely that significant economic growth will take place within the next two to three years, even if the military is able to maintain their political power in Indonesia. In the long run, however, chances for economic growth under a military government are probably good. The military, in order to maintain itself in power, is likely to be more concerned than Sukarno's government had been about the country's economic problems and the possible adverse political effect that further economic deterioration may engender. The military also should be better able to enforce sound economic policies. Before any economic growth can be expected, however, the infrastructure must be rebuilt. For three years, therefore, it is estimated that real growth of the national product will just about break even.

Assuming that the military leaders are willing to follow sound policies directed toward the attainment of economic stabilization, economic growth will require significant changes in the economic structure of the country. A greater proportion of development expenditures must be afforded the agricultural sector. Rubber, long the mainstay of the economy, has been subject to sharply declining prices on the world market and to increased competition from synthetic rubber. If Indonesia is to maintain its competitive position in natural rubber, large scale replanting with high yielding trees must take place. The production of rice and other foodstuffs must also be expanded. Existing industries must be rehabilitated and made more efficient and new industries based on indigenous raw materials must be established.

A maximum average annual rate of growth of 5 percent is postulated through 1976 as possible to attain only if the military leaders are able to maintain firm political control and if they embark on a successful program of economic stabilization and development with good growth in both the agricultural and industrial sectors and with substantial inputs of foreign economic assistance. With a 5 percent average annual growth rate per capita incomes would rise from an estimated $76 in 1965 to $107 in 1976.

A more realistic average rate of growth of 3 percent, with a per capita income of $82 in 1976, postulates some progress in alleviating the current economic distress and improvement in agricultural output to the point of self-sufficiency in food production at least during the later years of the period. A zero rate of growth, with a per capita income of $59 in 1976, would be postulated in the event that present policies are not appreciably changed.

Indonesia's population of about 105 million is projected at slightly less than 137 million in 1976 on the basis of annual growth rates averaging 2.4 percent through 1970 and 2.6 percent from 1971-76.

10. Cambodia

During the past five years, Cambodia has achieved an average growth rate of 4 to 5 percent annually. The economy has benefitted from foreign assistance from the U.S., France, and Communist countries in developing its infrastructure and industry. The most significant advance, however, has been in the agricultural sector where a population growth of over 2 percent yearly has promoted increased production. The Cambodian economy suffered the loss of US economic assistance in 1963 because of Sihanouk's belligerent neutralism and endured substantial economic uncertainty as a result of government nationalization of private enterprises.

During the coming decade, Sihanouk is expected to remain in power and maintain a measure of internal political stability and cohesion. It is also assumed that Cambodia will not become engaged in a major military conflict. Because of continued antagonism, on the international scene, toward the U.S. and, on the domestic scene, toward private enterprise, foreign and domestic capital will continue to be insufficient to finance the major investments required for rapid economic growth. Given these resource restraints, the major factors affecting economic progress will be the government's management of its enlarged economic bureaucracy, the fortunes of weather, and the implementation of current foreign aid projects and of proposed projects on the tributaries of the Mekong.

Under these circumstances, the growth of GNP can reasonably be expected to fall within a narrow range of 3 to 5 percent annually. A median rate of 4 percent per year is anticipated with average weather and with a slow improvement in economic management and project implementation by the government. A population growth rate of close to 3 percent, however, will limit per capita GNP gains to about 1 percent per year. Markedly improved economic management and favorable weather could combine to produce an additional net growth of GNP of about 1 percent per year. Given prospective resource limitations, however, it is unlikely that the government will enjoy the economic flexibility required to generate this annual growth rate of 5 percent. If Cambodia should restrict its participation in the Mekong Committee, additional resource restrictions would be imposed. Under these circumstances or if adverse weather or mismanagement occur, a lower growth rate -- approximately the population growth rate of 3 percent -- is possible.

Under the projected median rate of growth of 4 percent per year the Cambodian GNP would increase from an estimated $768 million in 1965 to $1.18 billion in 1976 and the respective per capita GNP values would increase from $126 to $144. Under the most favorable conditions of growth per capita GNP would be increased to about $160 and under less favorable conditions would increase only to $130.

11. Laos

Reliable economic data on Laos are non-existent. Estimates of the current population range from 2.0 to 2.6 million, and the range for GNP is correspondingly wide. It is generally agreed, however, that the average GNP per capita is at a near-subsistence level -- approximately $65 per capita. Current economic data can not be used as a base for realistic projections for the coming decade.

It is estimated that, under current conditions, the population and GNP growth rates are comparable -- about 2 to 2.5 percent annually. These rates are expected to continue until 1970 when the completion of the Nam Ngum hydroelectric project should allow GNP growth to outdistance population growth. Assuming optimistic political/military conditions, the growth rate of GNP would be significantly higher -- a few percentage points. With deteriorating conditions, GNP and population growth rates will continue to remain comparable.

12. South Vietnam

During the past five years, the basic factors affecting the growth of the South Vietnamese economy have been: (1) the Viet Cong insurgency and the resulting military demands; (2) internal political instability; and (3) the magnitude and focus of U. S. and other foreign assistance. Commercial activity, public and private investment, and foreign trade have been seriously disrupted by insurgency and political instability. The demand for manpower and material by the military have restrained the growth of GNP. The majority of foreign assistance has been closely tied to the counter-insurgency effort, promoting consumption and welfare. It should be pointed out that total available resources (GNP and the Net Foreign Balance) has been considerably above GNP and has stimulated consumption, welfare, and -- to a lesser degree -- economic growth. The growth of GNP during the past five years has averaged about 3.5 percent annually.

It seems likely that some of the adverse conditions that have impeded economic growth will continue through 1976. Although reconstruction of the country's infrastructure would have occurred in selected areas, the persistance of sporadic terrorism and political instability will require that the bulk of foreign assistance be devoted to counter-insurgency, including urban consumption needs. As pacification proceeds and capital investment in industry and agriculture increases, the growth in GNP might average about 4 percent annually. Population growth will continue to eat up the bulk of this increase, and GNP per capita will grow by slightly more than 1 percent per year from an estimated $109 in 1965 to $127 in 1976. A continued heavy input of foreign resources will contribute significant gains in welfare and consumption.

A major change in the political and military conditions in South Vietnam would alter this projection. A rapid, favorable conclusion to the insurgency, the establishment of a relatively effective and stable government, and the availability of massive Western economic assistance increasingly able to emphasize capital investment would enable Vietnam to achieve significantly higher rates of growth. A growth of 7 percent per year would seem possible for a limited span of years as the country reconstructs and the opportunities for increases in agricultural and industrial production are met through increased Vietnamese and American investments. Such a growth rate, if sustained, would yield a per capita GNP of about $163 in 1976.

Adverse political or military circumstances would, on the other hand, probably retard the growth of GNP to about 3 percent. These conditions could be the result of a deterioration of the Western military position or serious internal political problems or the result of a negotiated settlement that restricted the Free World's presence in post-war South Vietnam (or a portion thereof). Under these conditions, the gain in GNP per capita would be almost negligible during the coming decade.

13. Philippines

The gross national product of the Philippines grew at a real rate of over 6 percent per annum during the 1950's primarily because of exchange controls that favored the manufacturing sector and the growth of an entrepreneurial class that reinvested its sizable profits in manufacturing. More recently, the annual rate of growth of GNP has slowed to 4-5 percent, a pace that narrowly exceeds an annual rate of population increase currently estimated at 3.5 percent. Conditions and trends are presently unsettled as the economy recovers from the excesses of an election year, the inertia of the Macapagal era, and the adjustment to a unified rate of exchange for the peso. In the absence of profound changes in popular attitudes toward fiscal policy, the current share of government expenditures in GNP of 12 percent probably will increase only slightly between now and 1976. Nevertheless, because President Marcos, has realistically assessed the prominent gaps in the nations infrastructure, has quickly taken initial measures in response to the persistent lags in the production of food crops, and has clearly demonstrated his intent to overcome some of the pervasive graft, corruption, and duplication of effort in government agencies, it may be anticipated that the quality of the government's economic performance and the effectiveness of government investment will show improvement over the next few years. Expansion of economic activities in the private sector, which will continue to bear the burden of development for the foreseeable future, will probably be constrained from time to time by the requirement for conservative monetary policies as the exchange rate of the peso comes under pressure.

Assuming that the basic form of government will remain unchanged through 1976, credible rates of economic growth for the Philippines will range from 4-6 percent. The highest of these rates, which would lead to a GNP of some $9.6 billion in 1976, and which was achieved during the 1950's, was proposed as feasible for the period 1962-1966 by the International Bank for Reconstruction and Development (IBRD), and was the basis of the ill-fated Five Year Integrated Socio-Economic Program (FY 1963-1967*). Underlying any projection of this growth rate of 6 percent for the period 1965-1976 are the following assumptions: 1) the share of GNP accounted for by gross investment will average in excess of 15 percent as contrasted to the less than 10 percent of the 1950's; 2) foreign exchange requirements for development not met by net private capital inflow, current U.S. assistance and transfer payments, and Japanese reparations will be adequately covered by conventional borrowing and additional U.S. or other grant aid; 3) government will develop a tax base adequate to increase its share of gross fixed investment significantly beyond the scant 10 - 15 percent of recent years; 4) this increased government investment will be channeled into rational programs to develop and expand highways, irrigation

* The Philippine fiscal year begins on 1 July.

[illegible] networks, and power facilities; and 5) the private sector, in concert with an experienced Central Bank and increasingly effective rural credit facilities, will respond to new opportunities to expand and diversify agricultural and manufacturing production.

An average economic growth rate of 5 percent, yielding a GNP in 1976 of $8.7 billion, is the most likely case, and an IBRD study of June 1965 estimates this rate of growth as feasible for the period 1965-1970. Factors likely to alter the conditions described above in such a manner as to lead to a 5 percent rate would include an increasingly uncertain climate for private foreign investment, failure to effect significant tax reforms, and the continuation of the tradition of pork-barrel distribution of government investment.

If these handicaps were compounded by poor weather in most crop years, steadily deteriorating market conditions for the major Philippine exports, or consistently tight monetary policy over the period, an economic growth rate of 4 percent would appear more realistic. This relatively pessimistic rate would produce a GNP in 1976 of $7.8 billion.

The economic gains inherent in each of the cases described above would include sizable overall growth in GNP and the likelihood that the share of secondary industries (manufacturing and construction) in total output would increase, reducing somewhat the heavy dependence on relatively unstable agricultural production and international markets for primary products. These aggregate changes, however, gloss over the more pressing consideration that per capita gains in the best case will be modest. Unless the Philippine government sponsors an effective national program of birth control, per capita GNP in 1976 will probably only range from $5-45 over its present level of about $160. At best, these data could only be regarded as a crude index of living standards, and it is fair to say that the limited numerical gains have little tangible equivalent. If the period from 1965 through 1976 does not see significant changes in the distribution of income, conditions will have improved for subversion of the central government by Communist-inspired groups, and the Chinese Communist threat to the Philippines will have assumed considerably greater complexity.

14. Taiwan

The prospects for continued economic growth in Taiwan are good. The average annual growth rate of 8 percent achieved during 1961-65 is somewhat above the probable future rate because of the extraordinary growth achieved in 1964-65 -- 10 percent and 9 percent respectively. Exceptional growth in 1964-65 was achieved both in agriculture and industry. Agricultural output increased at nearly 9 percent per year -- almost double the normal rate -- and industry registered a gain of slightly more than 40 percent during the two-year period. The most probable average annual GNP growth rate for the period 1966-76 is about 7 percent, the average rate achieved during 1959-63. Assuming a population in 1976 of 15.9 million, the 7 percent growth would yield a per capita GNP of $341, compared to an estimated $207 in 1965.

With most of Taiwan's arable land now in use, future increases in agricultural output will become progressively more difficult, depending almost entirely on increasing the productivity on land already under cultivation. Present yields per hectare in Taiwan are large for most crops compared with most Asian countries, but are still considerably below those of Japan. Assuming average weather conditions during the next decade, Taiwan is capable of adding annual increments of 4-5 percent to agricultural output. The creation of a favorable investment climate in 1964 was followed by a greatly increased flow of foreign capital into Taiwan with the result that the end of U.S. concessional aid in 1965 could be effected with no disruption of growth patterns. The domestic market for Taiwan-produced goods -- both industrial and agricultural -- is small, however, and foreign markets must be continuously expanded if long-run economic growth for Taiwan is to be maintained.

Taiwan's limited birth control program, begun in 1964, is now expanding. The public response to the program thus far has been favorable and if this initial success continues, annual population growth can be expected to decline to 2 percent or less by 1976 compared with the present rate of almost 3 percent.

Under the most favorable conditions including exceptional weather and an international economic situation that permits continued increases in the value of Taiwan's exports and a high rate of foreign investment, the average GNP growth could reach 8 percent yielding a per capita GNP by 1976 of $377. The lower level of the possible range of annual GNP growth is estimated to be 5 percent. This rate could be brought about by reduced foreign and domestic investment resulting from reduced recognition by foreign governments vis a vis Communist China, by unusual weather conditions and a substantial decline in prices of Taiwan's agricultural exports. The per capita GNP at an average annual growth of 5 percent would be about $277 in 1976, a relatively high income by Asian standards.

15. South Korea

The increasingly responsible economic policies followed by the South Korean government during the period of the First Five-Year Economic Development Plan (1962-66) and the 1965 ROK-Japan Normalization Treaty, which provides for an $800 million package of Japanese loans and grants over the next decade, augurs well for continued South Korean economic growth through 1976.

Given relative political stability in South Korea during the next decade, an average annual GNP growth rate through 1976 of about 5 percent is expected. This is about the same rate of growth attained during 1960-65. With an annual population growth rate of almost 3 percent, an annual GNP growth rate of 5 percent yields an increase of only 25 percent in per capita GNP, from $108 in 1965 to $136 in 1976. If the sectoral growth pattern of 1960-65 continues through 1976, agriculture, forestry, and fishing can be expected to decline from 31 percent of GNP to 27 percent, and manufacturing to increase from 14 percent to 20 percent. A growing and viable South Korean economy is of considerable importance to the US, as indicated by the $4 billion in economic aid grants provided by the US to South Korea since 1945. If economic growth continues at a satisfactory pace, after 1970 South Korea will require little, if any, economic grant aid, but if growth rates should decline substantially, it is almost certain the US would provide sufficient economic aid to sustain a minimum annual growth of 3-4 percent.

A GNP growth rate as high as 7 percent through 1976 will be difficult to achieve and is considered unlikely. A substantial upward shift in the level of savings and investment and an above normal annual rate of increase in agricultural output would be necessary. A reduction in the 590,000 man defense force, releasing funds for more productive purposes, would also be useful, but the political and military requirements for this force are not expected to be reduced through 1976. Either below average weather conditions (which would decrease returns to agriculture) or prolonged price inflation (which would result in decreased savings and investment) could limit annual GNP growth to, or below, 4 percent.

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